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To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: J. Tyler McCauley
Auditor-Controller

Subject: **FISCAL REVIEW OF FEMMY'S GROUP HOME -
A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of Femmy's Group Home (Femmy's). Femmy's was licensed to operate five group homes with a combined resident capacity of 30 children and was located in the Second Supervisorial District. We selected this agency for review after an audit of a related Agency (Marites Group Home) disclosed serious contract compliance and internal control issues.

DCFS contracted with Femmy's to provide the basic needs and services for foster care children placed with the Agency. Under the provisions of the contract, DCFS paid Femmy's a monthly rate of \$4,064 per child, based on a rate classification level determined by the California Department of Social Services (CDSS). In the 12 month period covered by our initial audit, Femmy's received approximately \$1,497,600 in foster care funds from DCFS.

Scope

The purpose of our review was to ensure that Femmy's complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of Femmy's accounting records, internal controls and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of group home foster care funds.

Because of the serious nature of the fiscal irregularities and questionable expenditures identified in our initial audit, these matters were referred to my Special Investigations Unit (SIU) for investigation.

Summary of Findings

Our initial audit, covering the period from September 1, 1998 through August 31, 1999, disclosed serious deficiencies in Femmy's controls over the receipt and disbursement of group home funds, including numerous questionable and related party expenditures, incomplete accounting records and lack of supporting documentation. As a result, we initially questioned a total of \$704,052 in expenditures made by Femmy's.

Of this amount, \$151,308 represents checks which cleared the Agency's seven bank accounts but for which the Agency refused to provide a cancelled check or any supporting documentation. We also identified 68 cancelled checks totaling \$67,979 that were altered by Femmy's management to correspond with the receipts provided to support them. We noted that receipts provided to support disbursements frequently did not agree with the underlying check, that checks were made payable to relatives and other related parties, and were often for purchases made at locations geographically distant from the group home location. Femmy's management was unable to explain these discrepancies.

In addition, we found \$27,910 in electronic withdrawals and \$130,810 in cash and check disbursements for which the Agency did not have adequate supporting documentation. These included checks payable to cash that were misclassified or excluded from the Agency's accounting records, payments for personal charges on the Executive Director's American Express card, reimbursements to Femmy's administrators that were unsupported and payments for dry cleaning, cable television and other services which were undocumented or did not appear to be for the benefit of the group home.

We also noted \$263,035 in salaries and other wages that were not supported by documentation as required by the contract, \$3,183 in unallowable bank overdraft and account fees and \$59,827 in unallowable and unreasonable shelter costs. These findings are detailed in the attached report.

SIU's investigation identified \$780,201 in highly questionable expenditures made by Femmy's management over the period January 1, 1997 through June 14, 2000. In some instances, components of this amount may overlap with the \$704,052 questioned in the initial audit. For example, "altered checks" questioned in the audit report might also be accounted for in the investigative summary, where we identified that those checks were used to send money to the Philippines or to pay personal debts at Las Vegas casinos.

We referred SIU's findings to DCFS and recommended they discontinue doing business with Femmy's. Femmy's contract with the County has since lapsed and was not renewed. Children placed in Femmy's facilities were relocated, and Femmy's is no longer a service provider for the County. As required, these findings were also referred to the District Attorney's Office (DA) for possible prosecution. However, the DA declined to prosecute Femmy's owners/licensees. The Franchise Tax Board and the DA are still considering filing charges for income tax evasion. Summaries of the initial audit findings and SIU's investigation are attached.

Review of Report

Because Femmy's is no longer in existence, we did not conduct a formal exit conference with the Agency.

JTM:PTM:MR

Attachments

- c: David E. Janssen, Chief Administrative Officer
Steve Cooley, District Attorney
Lloyd W. Pellman, County Counsel
Public Information Office
Audit Committee Members
Commission for Children and Families
Department of Children and Family Services
Anita Bock, Director
Ed Sosa, Chief, Out Of Home Care Programs
Genevra Gilden, Chief, Quality Assurance Division
California Department of Social Services
Evelyn Hemenover, Chief, Foster Care Rates Bureau
Sharon Ferrante, Chief, Foster Care Audits Bureau

Femmy's Group Home
Fiscal Audit of Group Home Foster Care Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracted with Femmy's Group Home (Femmy's) to provide the basic needs and services for foster care children placed in the Agency's care. Femmy's was licensed to operate five group homes with a combined capacity of 30 children, and was located in the Second Supervisorial District.

Under the provisions of the contract, the County paid Femmy's a monthly rate for each child based on a rate classification level determined by the California Department of Social Services (CDSS). Femmy's received a monthly rate of \$4,064 per child during the period of our initial review, September 1, 1998 through August 31, 1999, a total of approximately \$1,497,600 in foster care funds.

Applicable Regulations and Guidelines

Femmy's was required to operate its group homes in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- Group Home Foster Care Contract (Contract), including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular).
- California Department of Social Services Manual of Policies and Procedures (CDSS MPP).
- California Code of Regulations, Title 22 (Title 22).

Summary

Our review disclosed serious deficiencies in Femmy's controls over the receipt and disbursement of group home funds, including numerous questionable and related party expenditures, incomplete accounting records and lack of supporting documentation. Our findings raise questions of Femmy's compliance with its contract with the County.

Questioned Costs

Femmy's used group home funds for questioned costs totaling \$704,052. Details of the questioned costs are discussed below.

Bank Accounts and Cancelled Checks

For the period of our review, we identified 134 check disbursements totaling \$151,308 written from the Agency's seven separate checking accounts which had cleared the bank, but for which the Agency refused to provide the cancelled checks. Consequently, we were unable to determine the nature of these transactions and whether they represented appropriate and allowable group home expenditures.

In addition, we noted that two of the seven checking accounts were maintained in the name of a "volunteer" at one of the group homes. He was the only check signer on record for these accounts. The Agency was unable to provide a rational explanation for why this individual was an authorized signer.

Altered Checks

Our review disclosed 68 checks that were processed through Femmy's various bank accounts where information on the face of the check had been altered. The alterations typically involved a change to the description or date entered on the check. Twenty-three of the altered checks were made payable to "cash" and totaled \$9,090. The remaining checks were made payable to Femmy's administrators and employees, American Express, and a paging company. Because the checks had been altered and were not accompanied by adequate supporting documentation, we were unable to determine the exact nature of these disbursements. Therefore, we have questioned a total of \$67,979 in disbursements related to these checks.

Electronic Withdrawals

For our 12-month review period, we found 24 electronic withdrawals from Femmy's seven bank accounts totaling \$27,910 that were not supported by adequate documentation. Several of the withdrawals were not recorded in Femmy's general ledger. The withdrawals appear to include payments to a finance or leasing company. Femmy's management could not explain the nature of the withdrawals.

Undocumented or Inadequately Documented Costs

We identified group home expenditures totaling \$130,810 that were not supported by adequate documentation as required by the Circular, the Contract and CDSS MPP. Listed below are the details of these expenditures.

- \$9,649 in checks made payable to "cash". These disbursements were typically recorded in the accounting records as equipment, clothing, and maintenance, and in

some instances, were recorded to a "suspense" account, where the contract accountant posted any "unidentified" transactions. There were no vendor invoices or receipts to document the nature of these disbursements.

- \$77,679 in payments to the Executive Director's American Express account, without adequate supporting documentation. On numerous instances during our review, we requested that Femmy's management provide the monthly statements for this account. In each instance, the Agency refused to comply. In addition, the receipts provided to support these expenditures indicate purchases made by numerous individuals with a variety of different credit cards from locations that are geographically distant from the group home facility. Without adequate supporting documents such as account statements, we are unable to determine whether these disbursements were appropriate, reasonable, or allowable, and directly benefited the group home program. We could not verify that the receipts provided by Femmy's management to support these expenditures had any relationship to the actual charges made on this account.
- \$38,081 was paid to Femmy's Executive Director and other Agency administrators and employees. According to the Agency, these payments were reimbursement for purchases made by Femmy's management and employees on behalf of the group homes. However, there was no documentation supporting the purchases made by Agency employees.
- \$2,175 in payments to Ford Motor Credit Company. The Agency was not able to provide adequate documentation as to the nature of these payments.
- \$3,226 in payments to various vendors for dry cleaning, water bills, cable service, etc. Monthly utility statements, invoices or other acceptable documentation did not support these disbursements.

Unsupported Salaries, Wages, and Other Compensation

Femmy's incurred \$263,035 in salaries and other wages that were not adequately supported by timecards, personnel records, independent contractor agreements, or other supporting documentation. Specifically:

- \$25,785 in payments to six individuals who are related to the Executive Director of Femmy's Group Home and, based upon our review, were not employed by the Agency. There were no timecards or personnel files for any of these individuals. Therefore, we could not determine a basis for their compensation.
- \$86,560 in payments to individuals for which Femmy's issued W-2 Forms. There were no supporting timecards or personnel records for these individuals. In addition, Femmy's management could not provide an adequate explanation of who these individuals were or why they were paid with group home funds.

- Payroll costs totaling \$62,736 were not supported by timecards.
- \$87,954 was paid to independent contractors without adequate supporting documentation (i.e., contractor invoices, contractor agreements, or other verifiable evidence that the goods or services billed for were actually provided). We contacted one contractor, an accountant who was being paid for “consulting” services and inquired as to whether he had provided services to Femmy’s during the period of our review. He stated that he “did not know” if he was providing services to the Agency, and neither he nor Femmy’s management were able to document the alleged consulting services.

Unallowable Costs

Bank fees totaling \$3,183 were incurred for checks written against non-sufficient funds. According to the Circular, fines and penalties resulting from violations of federal, State and local laws and regulations are not allowable costs.

Shelter Costs

CDSS MPP Section 11-402.828 states that group home shelter costs shall not exceed 12% of the fair market value shown on the last property tax bill or a recent property appraisal. Shelter costs include, but are not limited to, mortgages for owned property, lease or rental costs, use allowance for capital improvements, taxes, building insurance, and appraisals for owned, leased or rented property.

Femmy’s shelter costs consisted of monthly lease payments for five group homes. Our review of the Agency’s shelter costs disclosed \$59,827 in unallowable and unreasonable expenditures. These included payments for two group homes that exceeded CDSS limits, payments in excess of the amount stated in the lease agreement, and payments on a luxury residence (occupied by group home residents) owned by the Executive Director’s sister that we determined to be unreasonable.

Recommendations

Based on the seriousness of the fiscal/accounting weaknesses, significant questionable disbursements to family members and other related parties, and other apparent improprieties noted above, we recommended to DCFS that they discontinue their business relationship with Femmy’s. Subsequently, Femmy’s contract with the County lapsed and was not renewed. Children placed in Femmy’s facilities were relocated, and Femmy’s is no longer a service provider for the County of Los Angeles.

Los Angeles County Auditor-Controller
SPECIAL INVESTIGATIONS UNIT

INVESTIGATION OF FEMMY'S GROUP HOMES

Findings

In February 2000, as a result of financial irregularities discovered during the audit of Femmy's Group Home (Femmy's), the Special Investigation Unit (SIU) opened an investigation. The audit of Femmy's was completed in January 2000 and covered the period from October 1998 to September 1999. SIU's investigation covered the period from January 1, 1997 to June 14, 2000.

The following summarizes SIU's findings.

- TRANSFERS TO THE PHILIPPINES (\$26,103)
Femmy's monies were used to pay for non-group home expenses in the Philippines. These expenses were paid in one of three ways; group home checks were mailed directly to the Philippines, group home checks were cashed and the money wired to the Philippines, and group home checks were cashed by individuals in the United States and used to pay for expenses related to a land dispute lawsuit in the Philippines. Documentation we obtained indicates that group home monies may have been given to government officials in the Philippines to ensure a favorable ruling in the lawsuit.
- PAYMENTS TO AMERICAN EXPRESS (\$102,080)
Femmy's monies were used to pay for personal expenses charged to American Express cards. The group home paid a total of \$263,813 to American Express between January 1997 and February 2000. From this total we subtracted all charges that in any way could be group home related. This left \$102,080 that was clearly spent for personal expenses. They included airline and hotel charges for trips to the Philippines and Las Vegas, golf, jewelry, meals at upscale restaurants, and purchases at upscale clothing stores.
- MORTGAGE PAYMENTS ON A PERSONAL RESIDENCE (\$53,472)
Femmy's Executive Director used \$53,472 in group home funds to pay the mortgage on a private residence occupied by her sister. Femmy's Executive Director appears to have negotiated and directed other employees to negotiate group home checks, and sent the proceeds to several mortgage companies.

In an apparent attempt to conceal her ownership of the property, the Executive Director transferred the title to an employee of the group home, without the employee's knowledge or consent. SIU determined that the

employee did not make the monthly mortgage payments, did not live at the property and did not receive rental income from the property. Group home funds were used to pay the mortgage before and after the transfer of title.

- RENTAL PAYMENTS ON A PERSONAL RESIDENCE (\$26,860)
Femmy’s monies were used to pay the rent on a personal residence occupied by the Executive Director and her husband. Starting in 1999, the husband, who was not an employee of the group home, received group home checks totaling \$1,800 a month, with the money being used to pay the rent on their personal residence.
- REPAYMENTS OF PERSONAL LOANS (\$112,160)
Femmy’s monies were used to repay three personal loans. Although group home records indicate, and the Executive Director told the auditors, that those payments were for the salaries of contract social or maintenance workers, they were actually repayments for personal loans. We determined that none of the proceeds from the loans, made between 1997 and June 2000, were deposited into Femmy’s bank accounts. Furthermore, in some instances we were able to show that the loan proceeds were deposited into the Executive Director’s personal accounts.

In an attempt to conceal the true nature of the payments, Femmy’s Executive Director created 1099 forms for the period of the audit and asked the four individuals who made the loans to say they were group home employees if questioned. These individuals never received copies of the 1099 forms from Femmy’s, and they did not claim any income from Femmy’s on their tax returns.

- PAYMENTS TO LAS VEGAS CASINOS (\$4,500)
Femmy’s management took \$4,500 in group home funds and used that money to settle debts at two Las Vegas casinos. In one instance, group home funds were wired to a relative of the Executive Director at a Las Vegas casino. On the other occasion, the Executive Director negotiated group home checks and used the proceeds to purchase a cashier’s check that was mailed to a Las Vegas casino to make good on a NSF check for the same relative.
- PERSONAL LIFE INSURANCE (\$12,583)
Femmy’s group home funds were used to pay for a private life insurance policy to insure the Executive Director’s daughter for \$600,000. The Executive Director was the policy beneficiary. The group home was not a beneficiary of the policy and the insured was not an employee of the group home.

- UNSPECIFIED PERSONAL EXPENDITURES (\$442,443)
Femmy’s management disbursed \$442,443 in group home funds, which could not be identified with a legitimate group home related expenditure. These funds appear to have been given to Femmy’s Executive Director for her personal use. Group home accounts were not reimbursed for these disbursements.

We noted that disbursements from group home accounts appear to have been misclassified or excluded from the accounting records in order to obscure their true nature. We also documented that after the audits and/or investigation the amount of money taken out of the group home decreased substantially. For example, the Executive Director started writing checks from her personal checking account to make mortgage payments on a personal residence, for personal loan repayments and to make payments on her American Express account.